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TAGS: [ECON](#) [ETRD](#) [RS](#) [WTO](#)

SUBJECT: LOOKING FOR A "NO" FROM WTO ON CUSTOMS UNION

REF: MOSCOW 1538

Classified By: AMBASSADOR BEYRLER, REASON 1.4 (B) AND (D)

¶1. (C) Summary. Following Putin's surprise announcement that Russia intends to accede to the WTO as part of a customs union with Belarus and Kazakhstan, Russian officials are still trying to figure out how best to proceed. Intensive consultations are underway, with Minister Nabiullina reportedly speaking with various trade ministers while Russian negotiators proceed to Geneva this week and Paris next for consultations. GOR sources indicate that, following these conversations in Geneva and Paris, they will try to figure out a way forward. Diplomatic sources and press reports indicate that the negotiations in Geneva have not gone well for the Russians hopes of a Customs Union accession. However, they have not gone badly enough for Russia's economic liberals, at least one of whom told us that a firm "no" by WTO members and/or the Secretariat to the customs union proposal could be helpful in a reconsideration of the current Russian position. End Summary.

Consultations Underway

¶2. (C) While senior Russian government officials were clearly unprepared for Putin's June 9 announcement that Russia intends to accede to the WTO as part of a customs union with Belarus and Kazakhstan, they have shifted quickly into "outreach" mode. Economic Development Minister Nabiullina reportedly is reaching out via telephone to key counterparts, including USTR Kirk and EC Trade Commissioner Ashton. Nabiullina's talking points reportedly include expressing interest in preserving the work already accomplished on Russia's accession and in continuing discussions among experts on remaining items, including this week in Geneva. Nabiullina reportedly plans to meet with counterparts in Paris next week to conduct further consultations.

¶3. (C) Russia's lead WTO negotiator, Maksim Medvedkov, led the Russian delegation that was dispatched to Geneva consult on the customs union proposal with the WTO Secretariat and Russia's Working Party. GOR and other diplomatic sources indicate that, in addition to making the formal presentation on Russia's changed negotiating status at the meeting on Wednesday, Medvedkov was also charged with exploring with the WTO secretariat whether accession as a customs union was possible. While some in the Russian government interpret Article XII language as permitting such an action, others have doubts, noting that this provision refers to customs territories, which can differ from customs unions.

Reactions from Geneva

¶4. (C) Press reports and diplomatic sources here in Moscow indicate that the talks in Geneva were difficult, with Russian, Belarussian and Kazakhstani representatives facing questions from multiple delegations regarding the proposed change in negotiating status. The New Zealand trade officer noted that, based on the read-out he had received of the Geneva session, Russia's trade partners are extremely concerned about the potential for increased problems in the agricultural trade sector. The lack of agreement on SPS is of particular concern, given Russia's tendency to use non-tariff barriers to protect key markets.

¶5. (C) While direct information from the GOR is limited, as key GOR officials are going directly from Geneva to Paris for further discussions, Nabiullina is widely quoted as saying that she does not want to lose the progress already made. Putin himself is also quoted in Russian press as saying that Russia "needs to preserve the level of agreement that we've reached with the WTO from falling or being lost."

Re-evaluation after Paris

¶6. (C) Local business press and experts continue to raise questions regarding the Russian approach, noting the difficulties of negotiating as partners with countries when, at the same time, Russia is engaged in trade disputes with

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those same countries. Although Russia reportedly is in the process of removing bans on Belarussian dairy products, tensions remain regarding other Russian SPS restrictions, including those currently in force on meat from Kazakhstan.

¶7. (C) Meanwhile, GOR sources, including Vadim Grishin (protect), a senior Finance Ministry official close to Minister Kudrin, indicate that they intend to re-evaluate their approach following the consultations in Paris next week. Based on what they heard in Geneva this week, and what they expect to learn in Paris next week, they will try to map out a way forward.

¶8. (C) This future approach, we have been told, will need to take into account both Putin's public commitment to closer trade ties to Belarus and Kazakhstan, and the realities of negotiating in the WTO where there exists no precedent nor easily-identifiable path forward for accession by a customs union. In that regard, Grishin indicated that a "no" from the WTO wouldn't be the worst outcome as it would allow Russian officials to explore a way out of the current situation.

Comment

¶9. (C) As noted reftel, Putin's announcement was apparently not coordinated within the GOR and those who favor Russia's speedy WTO accession, such as Kudrin, Nabiullina, and Shuvalov, may be looking for ways to salvage the process, without directly contradicting Putin's public comments. A "no" from the WTO could give them a safe way to revisit Putin's announcement. However, our window of opportunity for influencing the WTO's decision is short. We need to be clear in our message and encourage others to do so as well. Otherwise, if the WTO's answer allows Russia to persist in going down the path of accession via a customs union, we envision significant delays in its accession as Russia tries to work out modalities with its international partners while also trying to keep its fractious coalition with Belarus and Kazakhstan alive.

BEYRLE